

PRESS INFORMATION BUREAU

GOVERNMENT OF INDIA

**FM: CONFIDENT TO ACHIEVE APPRECIABLE GROWTH DESPITE
NEGATIVE SENTIMENTS ACROSS THE WORLD; HOPES TO REPEAT
THE GROWTH PERFORMANCE OF 2010-11 IN THE CURRENT YEAR
(2011-12) AS WELL; COMMITTED TO THE FISCAL BALANCE TARGET
OF 4.6 FOR FY 2011-12; NO PROPOSALS FOR INTRODUCING DUAL
PRICING FOR DIESEL OR INCREASE IN DUTIES FOR BRIDGING ANY
PERCEIVED SHORTFALLS IN TAX REVENUES**

**New Delhi, Sharavana 15, 1933
AUGUST 06, 2011**

The Union Finance Minister Shri Pranab Mukherjee said that we would continue to achieve appreciable growth despite negative sentiments across the world. He mentioned about these sentiments in the developed nations which affected our markets on last Friday. But the Finance Minister Shri Mukherjee said that we witnessed some recovery already and this is testimony to our capacity for resilience. Shri Mukherjee said that our growth story is intact and the fundamentals are strong. He said that he is sure that our markets have the capacity to

withstand the negative sentiments affecting the external world. The Finance Minister Shri Mukherjee said that we have taken several measures to make our markets attractive, robust and vibrant and would continue to do so making it an attractive investment destination for the foreign capital. The Finance Minister said that as global investors look for opportunities across the world, India's attraction as an investment destination would continue to grow.

The Union Finance Minister Shri Pranab Mukherjee said that it is true that sometimes the process of reforms has been held hostage by political events and this is in the very nature of our democracy and its polity. The Finance Minister said that despite ideological differences the principal political parties have been able to work together on most issues. The Finance Minister Shri Pranab Mukherjee said that it is in that context that he has no hesitation in saying that the process of economic reforms in India is irreversible and that the economic stakeholders have no reason to fear introduction of any regressive policy measures at any point of time. **Thus, for instance, the Finance Minister Shri Mukherjee said that there are no proposals for introducing dual pricing for diesel or increase in duties for bridging any perceived shortfalls in tax revenues, as has been highlighted by a speculating media in the past couple of days.**

The Union Finance Minister Shri Pranab Mukherjee was addressing the National Conference of Confederation of Indian Industry (CII) here today. The Conference is being attended by the leading industrialists of the country.

The Union Finance Minister Shri Pranab Mukherjee said that it gives him great pleasure to address this National Conference organised by CII on the theme **“Two Decades of Reforms: The Way Forward.”** The Finance Minister Shri Mukherjee said that the year 1991 stands out as a landmark year for the change it brought in economic policy and administration in the country. He said though the winds of change had started gathering momentum in the early 1980s, yet it was the

Union Budget of July 1991 that brought out major economic policy initiatives to the forefront. Shri Mukherjee said that it gradually helped the economy towards newer heights of achievements, opportunities and capacity to confront the ever changing challenges of a globalised world. CII has been an important stakeholder in this journey and I acknowledge its contribution to the process, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that he has always maintained that reforms are an on-going process, not a one-time event. He said that the developments in 1980s created the platform for major changes that occurred in July 1991 and the subsequent years. Similarly, developments in the past decade have set the stage for the future agenda of our economic reforms, the Minister added. Shri Mukherjee said that it is sometime suggested that we were perhaps a decade or two late in launching our reforms. He said that there are also some who are of the view that these changes should have never happened. But Shri Mukherjee said that he doesn't sympathize with either of these positions. In life one has to be pragmatic, he added.

The Union Finance Minister Shri Pranab Mukherjee said that the economic reforms since 1991 have enjoyed a bipartisan support, with successive Governments at the Centre working towards liberalising and unshackling the restrictions on enterprise, and addressing distortions in different markets. The Finance Minister said that result has been the flowering of Indian private enterprise, which has made its mark at home and at the most competitive international level.

The Union Finance Minister Shri Pranab Mukherjee said that as we take stock of the two decades of economic reforms and the state of our economy today, it is important to also dwell on where we want to go from here and how do we want to reach that destination..

The Union Finance Minister Shri Pranab Mukherjee said that The global economy has just witnessed one of its worst crises in recent history and is still suffering from its aftermath. He said that it is a matter of pride for us that the Indian economy experienced only a brief pause in its rapid growth and could recover with an average of over 8 per cent growth in the years following the outbreak of crisis. In the past two decades, the Finance Minister said that the Indian economy has rapidly globalised and from around 2003-04, it has moved on to a higher trend GDP growth rate of 8.5 to 9 per cent per annum. **The Finance Minister Shri Mukherjee said that today, India is the second fastest-growing large economy in the world, and is widely expected to be among the top three economies in the next two decades.**

The Union Finance Minister Shri Pranab Mukherjee said that the experience in the post-2004 period shows that economy has become resilient to both external and domestic shocks. He said that it has undergone a significant structural change with a decline in the share of agriculture and allied sectors to about 14 per cent and a rise in the share of services to nearly 58 per cent and that of industry to 28 per cent. The Minister said that we have been able to increase the rate of savings and investment, our exports have increased robustly and at USD 250 billion in 2010-11 have crossed the USD 200 billion mark for the first time. The foreign exchange reserves, which were almost depleted in 1991, have crossed USD 300 billion mark. The Government's tax and non-tax revenue have increased manifold and the fiscal health is robust. It has provided us with the means to bridge our development gaps and renew the efforts to overcome the disparities in social well-being by implementing some flagship programmes. The social indicators have improved and the poverty incidence has come down.

The Union Finance Minister Shri Pranab Mukherjee said that the agriculture diversification has added to its resilience in the face of uneven and sometimes delayed monsoons. The agriculture year 2010-11 has seen production record a new high, he added. **Shri Mukherjee said that the food**

grain production at 242 million tons has grown by 11 per cent over last year's production. **The Finance Minister said that we are getting close to self-sufficiency in pulses with record production of over 18 million tons.**

The Union Finance Minister Shri Pranab Mukherjee said that there are several reasons that growth is almost universally predicted to be sustained at a high rate of 8 to 9 per cent per annum and more, over the next few decades by economic analysts. He said first, the savings and investment ratios have gone up in the last few years and are reminiscent of the high growth East Asian economies. **Secondly, India's** working age population is young with over half the population is in the twenties. **Thirdly,** growing middle class incomes have led to self sustaining buoyancy in domestic demand, particularly in the rural areas. **Fourthly,** India is making rapid progress in infrastructure, both social and physical and along with better access to cutting edge technology is likely to see improvement in productivity. The Minister said although these are the primary factors for India's dynamic growth, yet there are **many other drivers of India's growth story including the energy and vibrancy of our entrepreneurs, strong services sectors, emerging knowledge spheres and sunrise sectors and growing number of engineers and scientists.**

The Union Finance Minister Shri Pranab Mukherjee said that **he is recollecting these factors here because Indian industry seems to be less optimistic about the economic prognosis for the country today, than it was earlier. Private sector investment has been a critical growth driver in the recent past along with growth in private consumption.** The Finance Minister said that rise in the share of private investment in domestic demand helped in improving economic efficiency and productivity. Shri Mukherjee said that while the momentum in consumption has been sustained as the economy has recovered from the slowdown in 2008-09, the recovery in private investment growth has been held back. The Finance Minister said that it is a matter of concern and we must

together do what is required to improve business sentiments to restore the investment growth seen in the years before the global crisis.

The Union Finance Minister Shri Pranab Mukherjee said that our major challenge in the short-term is inflation, which has implications of sustaining our growth momentum. Inflationary pressures persist both from higher global commodity prices and domestic structural demand-supply imbalances in several commodities. The management of inflationary pressures in the medium term is critically dependent on an improvement in the supply response of agriculture to the expanding domestic demand and in the short-term by taking steps to moderate aggregate demand. In the past few weeks we have taken measures to address these concerns. The Finance Minister Shri Mukherjee said that the monetary policy has been gradually tightened, at the same time new initiatives were announced in the Union Budget to address some of the bottlenecks in the food supply chain that were behind the inflationary spikes in past years. The monetary measure may end up moderating the growth rate, if they have to be persisted for an extended period of time. **The Finance Minister Shri Mukherjee said that he is hopeful that we should together be able to repeat the growth performance of 2010-11 in the current year as well.**

The Union Finance Minister Shri Pranab Mukherjee said that we look ahead to join the ranks of developed countries in the coming decade or so, there are several challenges that we need to address in the medium term. **First**, our future reforms will need to improve economic efficiency and spread the benefits of growth equitably across States and address disparities between urban and rural areas. **Growth has to be more inclusive and pursued more vigorously.** He said that improved productivity in agriculture is central to meeting this objective. There is urgent need to address the constraints on the growth of output and incomes in this sector. We have to renew our efforts and perhaps find new mechanisms to incentivize the State Governments to take a lead in addressing local policy gaps in agriculture.

Secondly, the Union Finance Minister Shri Pranab Mukherjee said that education with special thrust on skill formation, health and sanitation are core areas that should receive urgent attention. We need to bridge the human resource deficit that could prevent us from harnessing the demographic dividend and sustain high growth. Policy and regulatory framework is being put in place for the higher education system to develop the required intellectual capital for growth and development. Similarly, vocational education has to be reoriented in such a way that imbalance between supply and demand in skills at different levels and tiers are gradually bridged. I am very optimistic about the progress being made by the ongoing mission led by the Prime Minister's National Council on Skill Development. I expect the private sector to strongly participate in skills development activities to make our emerging large workforce globally capable and competitive.

Thirdly, the Union Finance Minister Shri Pranab Mukherjee said that India needs to invest an additional 3-4 percent of GDP on infrastructure to sustain current levels of growth, or higher, over the next couple of decades. Development of quality infrastructure and ensuring its broad-based, regional and rural-urban balance is central to sustaining high growth. Areas like power and energy, ports and airports, water resources, rural connectivity and urban infrastructure are in need of resources and managerial best-practices. The Government has laid emphasis on Public Private Partnerships (PPPs) which combine the efficiency and technological prowess of the private sector, with the public welfare orientation of Government. We have established unique and innovative financing support such as the scheme to support Viability Gap Funding for PPP projects. The enabling framework for Infrastructure Debt Funds to effectively meet the long-term debt requirements of the infrastructure sector has been finalized.

Fourthly, the Union Finance Minister Shri Pranab Mukherjee said that **issues like land acquisition, environment clearance and resettlement and rehabilitation have to be**

addressed satisfactorily, with a view to de-risking development and meeting environmental concerns. He said that the new land acquisition bill is in the public domain and is likely to be introduced in Parliament shortly. Shri Mukherjee said that a committee constituted by the Group of Ministers (GoM) to consider all issues relating to reconciliation of environmental concerns emanating from various development activities related to infrastructure and mining and to examine the efficacy and legality of existing forest clearance norms and procedures being followed, has just finalised its report which will be considered in the next few days. The Finance Minister Shri Mukherjee said that B.K. Chaturvedi Committee related to Coal sector, Vinod Dhall committee on Public Procurement Standards and Public Procurement Policy and Ashok Chawla Committee on Allocation and Pricing of Natural Resources are also in the process of being taken-up for consideration by GoM.

Fifthly, the Union Finance Minister Shri Pranab Mukherjee said that **we have to deepen the policy reforms in the financial sector and address gaps in the overall economic regulatory architecture.** The Government has outlined a significant legislative agenda for the financial sector which we hope to pursue in the coming days in the ongoing Parliament session. The Financial Sector Legislative Reforms Commission that has been constituted is working towards the harmonization of the existing laws, regulations and rules. The FSDC has become operational. It will ensure better inter-regulatory coordination for financial stability and development. SEBI has already approved the new Takeover Code keeping in view the interests of the domestic industry, help mutual funds get more retail investors and making it easier and safer for small investors to access the markets.

Finally, the Union Finance Minister Shri Pranab Mukherjee said that **we have to recognise that the success of our efforts in the coming years hinges critically on our ability to strengthen our macro-economic environment.** Shri Mukherjee said that **we need to have the necessary head-room and policy flexibility to address challenges emanating from global markets.** In the post-global crisis context, we have already begun the process of fiscal

consolidation and succeeded in reducing the fiscal deficit to 4.7 per cent in 2010-11. **He said that he is committed to the fiscal balance targeted for the current financial year end. The State Governments also need to work towards fiscal sustainability for meeting their development goals in the medium term.**

The Union Finance Minister Shri Pranab Mukherjee said that we have taken some steps to simplify and place the administrative procedures concerning taxation, trade and tariff and social transfers on electronic interface, free of discretion and bureaucratic delays. We need to move further in that direction. It will set the tone for a newer, vibrant and more efficient economy. Shri Mukherjee wished that the deliberations during the Conference would bring forth some fresh insights and policy inputs to take the economy forward.

The text of the Speech delivered by the Union Finance Minister Shri Pranab Mukherjee on the occasion is given below:

Finance Minister's Speech

CII National Conference, August 6, 2011 New Delhi.

Mr B Muthuraman, President CII,
Mr Adi Godrej, President-Designate CII,
Mr Chandrajit Banerjee, Director General CII,
Distinguished leaders from Industry,

Ladies and gentlemen;

It gives me great pleasure to address this National Conference organised by CII on the theme “**Two Decades of Reforms: The Way Forward.**” The year 1991 stands out as a land-mark year for the change it brought in economic policy and administration in the country. Though the winds of change had started gathering momentum in the early 1980s, it was the Union Budget of July 1991 that brought major economic policy initiatives to the forefront. It gradually helped the economy towards newer heights of achievements, opportunities and capacity to confront the ever changing challenges of a globalised world. The CII has been an important stakeholder in this journey and I acknowledge its contribution to the process.

2. I have always maintained that reforms are an on-going process, not a one-time event. The developments in 1980s created the platform for major changes that occurred in July 1991 and the subsequent years. Similarly, developments in the past decade have set the stage for the future agenda of our economic reforms. It is sometime suggested that we were perhaps a decade or two late in launching our reforms. There are also some who are of the view that these changes should have never happened. I do not sympathize with either of these positions. In life one has to be pragmatic.

3. The economic reforms since 1991 have enjoyed a bipartisan support, with successive Governments at the Centre working towards liberalising and unshackling the restrictions on enterprise, and addressing distortions in different markets. The result has been the flowering of Indian private enterprise, which has made its mark at home and at the most competitive international level.

4. It is true that sometimes the process of reforms has been held hostage by political events and this is in the very nature of our democracy and its polity. Despite ideological differences the principal political parties have been able to work together on most issues. It is in that context that I have no hesitation in saying that the process of economic reforms in India is irreversible and that the economic stakeholders have no reason to fear introduction of any regressive policy measures at any point of time. Thus, for instance, there are no proposals for introducing dual pricing for diesel or increase in duties for bridging any perceived shortfalls in tax revenues, as has been highlighted by a speculating media in the past couple of days.

Ladies and Gentlemen,

5. As we take stock of the two decades of economic reforms and the state of our economy today, it is important to also dwell on where we want to go from here and how do we want to reach that destination. Let me take the next few minutes to address some of these issues.

6. The global economy has just witnessed one of its worst crises in recent history and is still suffering from its aftermath. It is a matter of pride for us that the Indian economy experienced only a brief pause in its rapid growth and could recover with an average of over 8 per cent growth in the years following the out-break of crisis. In the past two decades, the economy has rapidly globalised and from around 2003-04, it has moved on to a higher trend GDP growth rate of 8.5 to 9 per cent per annum. Today, India is the second fastest-growing large economy in the world, and is widely expected to be among the top three economies in the next two decades.

7. The experience in the post-2004 period shows that economy has become resilient to both external and domestic shocks. It has undergone a significant structural change with a decline in the share of agriculture and allied sectors to about 14 per cent and a rise in the share of services to nearly 58 per cent and that of industry to 28 per cent. We have been able to increase the rate of savings and investment, our exports have increased robustly and at USD 250 billion in 2010-11 have crossed the USD 200 billion mark for the first time. The foreign exchange reserves, which were almost depleted in 1991, have crossed USD 300 billion mark. The Government's tax and non-tax revenue have increased manifold and the fiscal health is robust. It has provided us with the means to bridge our development gaps and renew the efforts to overcome the disparities in social well-being by implementing

some flagship programmes. The social indicators have improved and the poverty incidence has come down.

8. The agriculture diversification has added to its resilience in the face of uneven and sometimes delayed monsoons. The agriculture year 2010-11 has seen production record a new high. The food grain production at 242 million tons has grown by 11 per cent over last year's production. We are getting close to self-sufficiency in pulses with record production of over 18 million tons.

9. We would continue to achieve appreciable growth despite negative sentiments across the world. These sentiments in the developed nations affected our markets on last Friday. But we witnessed some recovery already and this is testimony to our capacity for resilience. Our growth story is intact and the fundamentals are strong. Our markets have the capacity to withstand the negative sentiments affecting the external world. We have taken several measures to make our markets attractive, robust and vibrant and would continue to do so making it an attractive investment destination for foreign capital. As global investors look for opportunities across the world, India's attraction as an investment destination would continue to grow.

Ladies and Gentlemen,

10. There are several reasons that growth is almost universally predicted to be sustained at a high rate of 8 to 9 per cent per annum and more, over the next few decades by economic analysts. **First**, the savings and investment ratios have gone up in the last few years and are reminiscent of the high growth East Asian economies. **Secondly**, India's working age population is young with over half the population is in the twenties. **Thirdly**, growing middle class incomes have led to self sustaining buoyancy in domestic demand, particularly in the rural areas. **Fourthly**, India is making rapid progress in infrastructure, both social and physical and along with better access to cutting edge technology is likely to see improvement in productivity. Although these are the primary factors for India's dynamic growth, there are many other drivers of India's growth story including the energy and vibrancy of our entrepreneurs, strong services sectors, emerging knowledge spheres and sunrise sectors and growing number of engineers and scientists.

11. I am recollecting these factors here because Indian industry seems to be less optimistic about the economic prognosis for the country today, than it was earlier. Private sector investment has been a critical growth driver in the recent past along with growth in private consumption. The rise in the share of private investment in domestic demand helped in improving economic efficiency and productivity. While the momentum in consumption has been

sustained as the economy has recovered from the slowdown in 2008-09, the recovery in private investment growth has been held back. It is a matter of concern and we must together do what is required to improve business sentiments to restore the investment growth seen in the years before the global crisis.

12. Our major challenge in the short-term is inflation, which has implications of sustaining our growth momentum. Inflationary pressures persist both from higher global commodity prices and domestic structural demand-supply imbalances in several commodities. The management of inflationary pressures in the medium term is critically dependent on an improvement in the supply response of agriculture to the expanding domestic demand and in the short-term by taking steps to moderate aggregate demand. In the past few weeks we have taken measures to address these concerns. The monetary policy has been gradually tightened, at the same time new initiatives were announced in the Union Budget to address some of the bottlenecks in the food supply chain that were behind the inflationary spikes in past years. The monetary measure may end up moderating the growth rate, if they have to be persisted for an extended period of time. I am hopeful that we should together be able to repeat the growth performance of 2010-11 in the current year as well.

Ladies and Gentlemen,

13. As we look ahead to join the ranks of developed countries in the coming decade or so, there are several challenges that we need to address in the medium term. **First**, our future reforms will need to improve economic efficiency and spread the benefits of growth equitably across States and address disparities between urban and rural areas. Growth has to be more inclusive and pursued more vigorously. Improved productivity in agriculture is central to meeting this objective. There is urgent need to address the constraints on the growth of output and incomes in this sector. We have to renew our efforts and perhaps find new mechanisms to incentivize the State Governments to take a lead in addressing local policy gaps in agriculture.

14. **Secondly**, education with special thrust on skill formation, health and sanitation are core areas that should receive urgent attention. We need to bridge the human resource deficit that could prevent us from harnessing the demographic dividend and sustain high growth. Policy and regulatory framework is being put in place for the higher education system to develop the required intellectual capital for growth and development. Similarly, vocational education has to be reoriented in such a way that imbalance between supply and demand in skills at different levels and tiers are gradually bridged. I am very optimistic about the progress being made by the ongoing mission led by the Prime Minister's National Council on Skill Development. I

expect the private sector to strongly participate in skills development activities to make our emerging large workforce globally capable and competitive.

15. Thirdly, India needs to invest an additional 3-4 percent of GDP on infrastructure to sustain current levels of growth, or higher, over the next couple of decades. Development of quality infrastructure and ensuring its broad-based, regional and rural-urban balance is central to sustaining high growth. Areas like power and energy, ports and airports, water resources, rural connectivity and urban infrastructure are in need of resources and managerial best-practices. The Government has laid emphasis on Public Private Partnerships (PPPs) which combine the efficiency and technological prowess of the private sector, with the public welfare orientation of Government. We have established unique and innovative financing support such as the scheme to support Viability Gap Funding for PPP projects. The enabling framework for Infrastructure Debt Funds to effectively meet the long-term debt requirements of the infrastructure sector has been finalized.

Ladies and Gentlemen,

16. Fourthly, issues like land acquisition, environment clearance and resettlement and rehabilitation have to be addressed satisfactorily, with a view to de-risking development and meeting environmental concerns. The new land acquisition bill is in the public domain and is likely to be introduced

in Parliament shortly. A committee constituted by the Group of Ministers (GoM) to consider all issues relating to reconciliation of environmental concerns emanating from various development activities related to infrastructure and mining and to examine the efficacy and legality of existing forest clearance norms and procedures being followed, has just finalised its report which will be considered in the next few days. B.K. Chaturvedi Committee related to Coal sector, Vinod Dhall committee on Public Procurement Standards and Public Procurement Policy and Ashok Chawla Committee on Allocation and Pricing of Natural Resources are also in the process of being taken up for consideration by GoM.

17. **Fifthly**, we have to deepen the policy reforms in the financial sector and address gaps in the overall economic regulatory architecture. The Government has outlined a significant legislative agenda for the financial sector which we hope to pursue in the coming days in the ongoing Parliament session. The Financial Sector Legislative Reforms Commission that has been constituted is working towards the harmonization of the existing laws, regulations and rules. The FSDC has become operational. It will ensure better inter-regulatory coordination for financial stability and development. SEBI has already approved the new Takeover Code keeping in view the interests of the domestic industry, help mutual funds get more retail investors and making it easier and safer for small investors to access the markets.

18. **Finally**, we have to recognise that the success of our efforts in the coming years hinges critically on our ability to strengthen our macro-economic environment. We need to have the necessary head-room and policy flexibility to address challenges emanating from global markets. In the post-global crisis context, we have already begun the process of fiscal consolidation and succeeded in reducing the fiscal deficit to 4.7 per cent in 2010-11. I am committed to the fiscal balance targeted for the current financial year end. The State Governments also need to work towards fiscal sustainability for meeting their development goals in the medium term.

19. We have taken some steps to simplify and place the administrative procedures concerning taxation, trade and tariff and social transfers on electronic interface, free of discretion and bureaucratic delays. We need to move further in that direction. It will set the tone for a newer, vibrant and more efficient economy. Let me conclude with these words. I thank you once again for inviting me on this occasion. I wish your deliberations during the Conference would bring forth some fresh insights and policy inputs to take the economy forward.

Thank you.

DSM